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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 001325

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EUR FOR DAS BRYZA

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TAGS: ECON ENRG EU PGOV RU BG

SUBJECT: BULGARIA MOVES FORWARD ON SOUTH STREAM AND  
BURGAS-ALEXANDROPOLOUS

REF: A. A) SOFIA 1288

1B. B) SOFIA 1100

1C. C) STATE 150552

Classified By: Ambassador John Beyrle for reasons 1.4 (b) and (d).

11. (C) Summary: The Government of Bulgaria signed a declaration with Russia on the proposed South Stream gas pipeline in Moscow November 8. As expected, the document is a general one-page political statement that leaves details about ownership of the pipeline to a later intergovernmental agreement (IGA). When announcing the signing of the declaration, the two sides stated they intend to sign an IGA during Putin's planned visit to Sofia in mid-January. In a separate but related development, on November 15 in Athens, the Bulgarian, Greek and Russian participants in the proposed Burgas-Alexandropolous pipeline (BAP) signed a joint protocol that agrees to establish an international project company, registered in The Netherlands. The document also lays out a tiered decision-making structure on key issues, which is to be agreed upon by January 15 in exchange for Russian guarantees to fill the pipeline at levels needed to attract project finance. The BAP protocol represents a breakthrough for the project after Russian insistence that the Bulgarians and Greeks guarantee input for the pipeline brought negotiations to halt two months ago. The Athens meeting also exposed a new divide among the participants, with Bulgaria and Russia now on one side and Greece on the other. End Summary.

12. (C) As expected (ref A), the Bulgarians signed a declaration on South Stream during the visit of Minister of Economy and Energy Petar Dimitrov to Moscow November 8. The declaration (text will be sent to EUR/NCE Bulgaria desk) is general and pledges the two sides to support the realization of the South Stream project. The document does not contain wording that South Stream would involve an "additional" pipeline on Bulgarian territory rather than make use of existing infrastructure, although our contacts at the state-owned Bulgargaz and at the Ministry of Economy and Energy tell us Bulgaria will not participate if the project does not involve a new, separate pipeline. Minister of Regional Development Asen Gagauzov told Ambassador November 19 that he believes even if South Stream involves a new, additional pipeline, the Russians intend to use the project to divert gas from Ukraine and Belarus, not to increase volumes of gas to Europe. After the signing, the two sides pledged to complete an intergovernmental agreement (IGA) on

the pipeline by the time of the visit of President Putin to Sofia in mid-January (our contacts tell us January 18). Our working level contacts tell us this deadline is too soon, but that they are under pressure to produce a deliverable for Putin's visit. The Bulgarians have not yet taken our advice and hired outside legal counsel to advise them on the development of an IGA for South Stream, but tell us it is high on their action list.

#### SURPRISE BAP AGREEMENT

¶3. (C) After a two-month negotiating hiatus, the Bulgarian BAP negotiators (without the knowledge of their U.S.- based legal counsel) unexpectedly joined the South Stream negotiators in Moscow on November 8, where they, too, signed a protocol with the Russians, this time with Transneft. The protocol caught BAP observers -- and, apparently, the Greek participants in BAP -- by surprise. The protocol (text emailed to EUR/NCE Bulgaria desk) states that Bulgaria and Russia agree to tiered decision-making on key issues within the international project company (IPC) (most issues require approval of 80 percent of voting shares to be approved) in return for Russian guarantees to fill the pipeline in quantities sufficient to attract financing for the project (our contacts tell us this is 18 million tons of the pipeline's 35 million ton capacity.) This was a major U-turn for the Russians, who stated the Bulgarians and Greeks would have to guarantee oil input in proportion to their shares in the IPC (ref B). Regional Development Minister Gagauzov and other Bulgarian contacts suspect that Putin himself was responsible for the Russian about-face. The Bulgarians returned from Moscow highly pleased with this agreement and announced that an IPC would be incorporated by the end of the

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year.

¶4. (C) The Bulgarians and Russians then went to Athens on November 15 to try to get the Greeks to sign on to the agreement. Our contacts report that the Greek side was "less than pleased" that the Bulgarians and Russians had come to an agreement without them. Although the three sides signed a protocol on November 15, the only real agreement in the document is that the IPC will be registered in The Netherlands. The Greeks are insisting that 90 percent (rather than 80 percent) of votes are needed to take major decisions. The sides agreed on an aggressive negotiations schedule (November 23-24 in Moscow and December 10-11 in Sofia) to complete work on the IGA, which will likely be presented as a deliverable either during the Putin visit to Sofia in January or, according to Gagauzov, during a Karamanlis visit to Moscow in late December.

¶5. (C) Russian guarantees on input mean Bulgaria, to its relief, will not be in the oil shipment business. Gagauzov told Ambassador that the structure of the agreement will allow shippers of Central Asian oil, such as Chevron and Kazmunaigaz, to ship up to 17 million tons of oil through BAP. These companies would do this through agreements with Transneft. Gagauzov also stated the current arrangement would make Bulgarian BAP shares more attractive to future participants, such as Chevron, in case Bulgaria decides to sell. Gagauzov said he is still waiting to hear from Chevron about its interest in BAP, but noted Chevron and Kazmunaigaz may not be willing to make offers until an economic feasibility study for the project is complete.

#### AMBO ALSO MOVING FORWARD, BUT LAGGING BEHIND BAP

¶6. (C) Deputy Ministers from the Bulgarian and Macedonian ministries responsible for the proposed AMBO oil pipeline will meet November 22 in Sofia to sign a border crossing agreement for the project. While this agreement is a small detail, it shows Bulgarian willingness to continue to move forward with AMBO even as BAP gains momentum. Our AMBO contacts tell us they are still trying to secure financing

for this project and deny that recent BAP progress threatens AMBO's prospects.

¶7. (C) Comment: The upcoming Putin visit is the driver of forward movement on Bulgaria's energy policy, at least in the short-term. The problem is that short-term policy is the only energy policy that Bulgaria has. In the case of BAP, Bulgarian negotiators apparently prevailed and Russia has resigned itself to providing oil guarantees in order to secure the project and make CPC expansion possible. On South Stream, the pressure from the looming Putin visit is forcing the Bulgarians to move too quickly and without legal counsel. We continue to deliver South Stream points (Ref C) and argue for the necessity of outside legal counsel before they sign any additional documents. (PM Stanishev told the Ambassador November 20 he agreed that outside counsel was needed.) What is clear from our meetings is that the Bulgarians are committed to the idea of South Stream, which they see as a huge potential revenue generator. The Bulgarians insist that South Stream is not an alternative to Nabucco, and they say they remain committed to the project. Still, we note an increasing Nabucco skepticism on the part of almost all of our energy contacts. We will use events surrounding the Sofia Energy Officers training session December 6-7, as well as DAS Bryza's concurrent visit, to address these Nabucco doubts.

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